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BUSINESS IN NEBRASKA

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ECONOMIC DEVELOPMENT POSSIBILITIES IN NEBRASKA

Economic development has been defined as an increase in per capita income. Implicit in this definition are increases in employment opportunities, an enhancement of individual and societal wealth, and more capital per worker (capital deepening). To the economist, economic development means an increase in real per capita income, more productive employees, and more capital. Consumers have the option of increasing their savings and/or their consumption. Consumers can have higher bank balances, increase their purchases of housing, automobiles, food, clothing, etc.

This edition of *Business in Nebraska* looks at economic development from the perspective of actions that the state of Nebraska can undertake to improve the prospects for economic development. The article provides suggestions on specific issues that Nebraskans may consider. Many of the suggestions are controversial. It is the responsibility of the University, however, to raise important and even controversial issues--not to ignore them.

This issue begins with a review of income and employment trends over the past 20 years. Comparisons are made with national growth trends. The second half provides specific recommendations on an industry that offers important economic development opportunities for the state.

EMPLOYMENT AND INCOME TRENDS

Employment in Nebraska increased from 623,000 to 802,000 from 1967 to 1985, about two-thirds of the national employment gain. The distribution of this increase was similar to national patterns. Service employment has provided most of the growth since 1975.

Nebraskans' incomes have kept pace with national trends better than employment has. Nebraska real personal income increased from $11.0 billion in 1967 to $19.7 billion in 1985, a gain of 79.0 percent. Over the same interval, U.S. personal income jumped 82.0 percent, from $1,579 billion to $2,873 billion.

Over an extended interval, the Nebraska economy expanded, but at a slower rate than the national economy. Since 1981, however, Nebraska employment growth has not done as well relative to U.S. employment growth as it did in the 1970s. From 1981 to 1985, employment growth in Nebraska was only one-fifth that of the nation. Income has continued to expand at 80 to 90 percent of the national average growth rate, despite the relatively poor performance of employment.

The distribution of this employment growth has created problems for Nebraskans. Construction, manufacturing, and farm jobs are declining in number, but service jobs continue to expand in telecommunications, insurance, and business services. Unless a person is particularly versatile and able to work in manufacturing, construction, and services, employment opportunities are likely to be restricted compared to what they were in the 1970s. All projections indicate the trends that led to development in the early 1980s will continue into the 1990s. Service jobs will expand more rapidly than manufacturing jobs; construction and farm-related employment opportunities will expand very little and, in some cases, will decline over the next ten years. This suggests Nebraska should concentrate its economic development efforts in the rapidly growing service components of the economy. Note that the emphasis here is concentrated--no exclusive strategy is envisioned.

THE INSURANCE INDUSTRY A POTENTIAL FOR ECONOMIC DEVELOPMENT

The insurance industry offers Nebraska potential for growth and development. The industry is larger and more concentrated in Nebraska than in neighboring states. More than 20,000 persons are employed in the insurance industry in Nebraska. Insurance employment and earnings increased more rapidly in Nebraska than nationwide from 1965 to 1984. This concentration suggests the possibilities of cost advantages for the industry (*The Economic Impact of the Nebraska Insurance Industry*, Bureau of Business Research, University of Nebraska-Lincoln, 1985). These trends are summarized in Table 2.

There are several possible methods to attract the insurance industry. Regulation could be relaxed, but consumers may suffer. Taxes could be reduced, but could they be replaced? Assistance and cooperation between industry, government, and the University may help in promoting the industry.

This report will examine an approach to the industry combining a slight reduction of taxes and promoting an increased degree of cooperation between the public, private, and education sectors.

TAXATION

First consider a reduction in the premium tax collected for the state as a catalyst to encourage development of the industry in the state. By making it attractive to do business in Nebraska and by advertising the state's advantages, some firms may consider movement of a home office or a branch office, an expansion of

an existing office, or consolidation of offices in Nebraska. Reduction in the premium tax should be viewed as a public relations tactic to extol the reasons why the insurance industry could prosper in Nebraska. For example, potential Nebraska advantages include office rents that are less expensive in Nebraska than in major metropolitan areas. Lower rents provide Nebraska an important advantage. Furthermore, Nebraska has a labor force of above average educational attainment, an important factor of production for the insurance industry.

Nearly three-quarters of Nebraska's labor force have completed high school, compared to two-thirds nationally. Its productivity should be slightly higher than average because of its educational achievements. A large number of data processors, clerical workers, and managers is required by the insurance industry, and Nebraska should compete favorably with major metropolitan areas such as Boston, New York, Philadelphia, Chicago, Miami, and others. Eastern financial markets require a presence in these centers, but there are policy servicing functions that can be done efficiently in Nebraska. A reduction in the premium tax would capture the industry's attention.

Let us consider the following hypothetical example of how a reduction in the premium tax may promote economic development. The premium tax currently brings in approximately $28.0 million. For purposes of discussion, assume the tax is reduced by $2.0 million. This may be sufficient to attract the industry's attention. Assume the effort is successful, and the industry adds 3,500 employees in Nebraska. Using information from 1983 individual income tax returns, the average return for a person filing with tax liability was $572 in 1983. Because of inflation in tax rate increases, this figure was estimated in 1986 to be approximately $600. Additional income tax receipts of $2.1 million would be generated from increased insurance employees in the state.

Sales tax receipts also would expand if an additional 3,500 persons were employed. In 1985, sales tax receipts totaled about $320 million net to the state or about $200 per capita. If each of the 3,500 employees came from a family of 3.5 persons, $2.4 million in additional sales tax receipts would be generated. Additional taxes would be raised through collections on liquor, gasoline, additional premium taxes on insurance written, and other miscellaneous sources.

In this hypothetical example, reduction in the premium tax is assumed to generate additional employment in the industry in Nebraska. This additional employment means additional jobs, more sales and income tax collections, and an increase in miscellaneous tax collections. Of course, it is unlikely that the change in premium tax collected will work precisely as presented in Table 1. Political decision makers must decide if the advantages in reducing the premium tax outweigh the disadvantages.

TABLE 1

Potential State Tax Collection Increases
Resulting From 3,500 Additional Insurance Employees

Income Tax	$2,100,000
Sales Tax	$2,400,000
Total	$4,500,000
Premium Tax Reduction	-$2,000,000
Net Gain	$2,500,000

Cooperation among the major actors and assisting the insurance industry are functions to be assumed by the state and the University, with the industry as a partner. Development success in the United States and Japan (incidentally, Japan is the model) involves cooperation and mutual assistance among the government, industry, and education.

The University of Nebraska could enhance the prospects for the development of the insurance industry by providing monies to attract additional prominent faculty to teach, to research, and to work with the insurance industry. For approximately $250,000, the University could establish a center for insurance development. It could attract additional experts in insurance and actuarial science to work with the industry. An insurance center at the University of Nebraska could offer expertise in insurance marketing, information processing, and continuing education courses. Nebraska carriers and agents could receive more course work than they now receive in Nebraska. Non-Nebraska firms and agents may be attracted to the state for continuing education courses, adding jobs and income from nearby states to Nebraska's economic base (exporting services). The insurance industry requires programs for Certified Life Underwriters (CLUs) and Certified Property, Casualty, and Liability Underwriters (CPCUs).

The University could assist the insurance industry by establishing a center that would offer an expanded internship program for students and a new program for faculty and executives. Summer internships for faculty to work with the industry would be particularly beneficial to both parties. The College of Business Administration's Executive in Residence program could focus on bringing more executives from Nebraska and non-Nebraska firms to the campus.

A question may be raised regarding why the insurance industry is a likely expansion industry candidate. Why not consider the promotion of banking, food processing, or any one of a number of other industries? In fact, all of these industries may be good possibilities for development. Encouraging insurance to expand in no way diminishes the importance of other industries.

The focus here is on the insurance industry because it has a record of expansion in Nebraska. State Farm's Lincoln office manager has stated that the Lincoln office is the most cost effective of all State Farm regional offices. Nebraska has experienced insurance expansions and transfers into the state in the past few years because of the state's favorable business conditions. According to one company official, "Thirty-six years ago, when State Farm was looking around the country for a place to locate its fourth regional office, it selected Lincoln because of the availability of able and productive people to work in that office. Lincoln remains a rich source of willing and well-educated employees for our processing and service center. The Lincoln office today is the most efficient operation among State Farm's 25 regional offices in the United States and Canada. It's been that way ever since opening its doors in 1947. The reason is the quality of Lincoln area people who work for us. They know what it means to put in a full day's work and be productive members of a team. We draw a lot of people from the surrounding areas. They have good attitudes about their work and about State Farm. State Farm consistently ranks at the top of the Mayflower Group corporate attitude surveys. Of the 25 State Farm offices, our Lincoln office tops the list. One reason we're so pleased with the

work our people do, I believe, is because our people are pleased with the work they do."[1]

Furthermore, health insurance is expected to grow rapidly in the next decade. Health insurance benefit payments and life insurance benefit payments in 1980 were more than $23 billion, according to the U.S. Department of Commerce.[2] Additional gains are anticipated. The processing of these claims may be conducted more efficiently in areas such as Nebraska where office space and personnel costs are below major metropolitan areas. Nebraska has outstanding telecommunications facilities that would enable transmission of completed forms to any point in the country rapidly. Some observers believe this type of data processing will move to places such as Mexico or Jamaica. It is doubtful that offshore firms possess the skills required to process claims efficiently and effectively.

Finally, the insurance industry is experiencing growth from pension plans. Financial planning may expand. Group pension plans and individual plans such as Keough accounts and Individual Retirement Accounts (IRAs) are contributing to this growth. Although the future of Keough and IRAs is uncertain under the new federal individual income tax code, the scope for increased employment opportunities may be above average in the insurance industry. Many functions of the insurance industry could be performed in Nebraska.

EARNINGS AND EMPLOYMENT TRENDS IN SELECTED INDUSTRIES

Data in Table 2 summarize the importance of the Nebraska insurance industry and attempt to put it in perspective in relation to other industries. Employment and earnings are expressed as index numbers. These data were obtained from the U.S. Department of Commerce, Washington, D.C. Employment data are available for 1969 through 1984, while earnings data are available from 1965 to 1984. In the case of employment, the index number is set at 100.0 in 1969. In 1984, for instance, total employment in the Nebraska economy expressed as an index number was 128.7. This also can be interpreted to indicate that total employment in the Nebraska economy increased 28.7 percent.

Employment in the insurance industry increased more rapidly than all employment in the state. Total employment increased 28.7 percent from 1969 to 1984. Insurance carrier employment grew 48.5 percent, and agent employment expanded 80.8 percent over the same time span.

Some other sectors are summarized for the purpose of comparison. For instance, rail and truck transportation employment grew more slowly than insurance employment. Manufacturing and construction employment increased very slowly over the 1969 to 1984 interval. Employment by insurance firms and insurance agents constitutes an estimated 2.9 percent of total employment in Nebraska in 1986.

Earnings also are expressed in terms of index numbers. No adjustment has been made for inflation, so the index numbers in 1984 are considerably above those in 1965.

Insurance firm earnings increased from a base of 100.0 in 1965 to 584.8 in 1984. This could be interpreted as a 4.8 percent increase. The earnings of all persons in the Nebraska economy swelled from 100.0 in 1965 to 504.0 in 1984. The earnings data represent only earned income and exclude income from such sources as dividends, interest, and rent and transfer payments, including welfare and pension payments. The earnings data also indicate that employee earnings have grown more rapidly than total earnings in the Nebraska economy.

Earnings of agents and the employees of insurance carriers constitute as estimated 3.2 percent of total earned income in 1986. Earnings in the insurance industry are above average for Nebraska, so earnings from the insurance industry are higher than the industry's proportional share of employment.

Table 2
Index Numbers of Employment and Earnings
Increases for Various Nebraska Industries

	Employment		Total Earnings		Total Real Earnings (in 1967 dollars)	
	1969	1984	1965	1984	1965	1984
Total	100.0	128.7	100.0	504.0	100.0	153.2
Insurance Carriers	100.0	148.5	100.0	584.8	100.0	177.8
Insurance Agents	100.0	180.8	100.0	602.2	100.0	183.0
Services	100.0	166.0	100.0	686.8	100.0	208.8
Transportation and Public Utilities	100.0	128.3	100.0	548.6	100.0	166.7
Rail Transportation	100.0	108.9	100.0	472.1	100.0	143.5
Truck Transportation	100.0	146.8	100.0	573.7	100.0	174.4
Manufacturing	100.0	107.2	100.0	480.1	100.0	145.9
Construction	100.0	113.7	100.0	351.3	100.0	106.8

[1] *Lincoln Working Capital*, Urban Development Department, Economic Development Division, Lincoln, Nebraska
[2] U.S. Department of Commerce, *1982 U.S. Industrial Outlook*, p. 402

continued on page 6

In February 1986, the *Lincoln Journal* dubbed the Bureau of Business Research "The Silver Lining Gang" because of Bureau optimism about the direction of change in the state's economy in the subsequent six months. At that time, the Bureau of Business Research's index of leading economic indicators for Nebraska was pointing up. This note of optimism was greeted with skepticism, scoffing, and comments that academics could never get anything right.

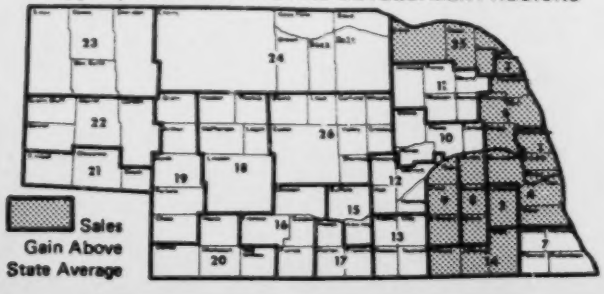
July 1986 employment data are now in, and I am pleased to report that the leading economic indicators were *correct in predicting an increase in economic activity in Nebraska.* As the data in Table A indicate, employment in Nebraska in six of the seven months from January to July of 1986 was above the level for the same month in 1985. Income data will be released by the Bureau of Economic Analysis, Washington, D.C. within a few months. These data also likely will confirm what the employment numbers are showing. In June 1986, there were 10,000 more persons working in Nebraska than in June 1985, approximately 1,000 more working in Omaha, and almost 600 more working in Lincoln than a year ago. Outside of Lincoln and Omaha, employment was also up. July 1986 employment statewide was almost equal to July 1985. A drop in Omaha employment in July was nearly offset by gains outside of Omaha. Some persons are undoubtedly doing jobs they would like to trade for other jobs, but there has always been a shortage of chief executive positions in Nebraska and nationwide. All the predictions about the bad farm economy spreading across Nebraska like a wild prairie fire now seem unduly alarmist. These predictions also may have been premature.

The Bureau of Business Research's series of leading indicators for Nebraska *measure real economic activity.* They are based on such factors as construction activity, commodity prices, employment levels, and the number of new unemployment claims. It is also important to remember that economic activity may move up, while tax collections may not move or may go down. The numerous changes in our tax laws in the past few years may have altered the longstanding relationship between a rising economic base and rising tax collections.

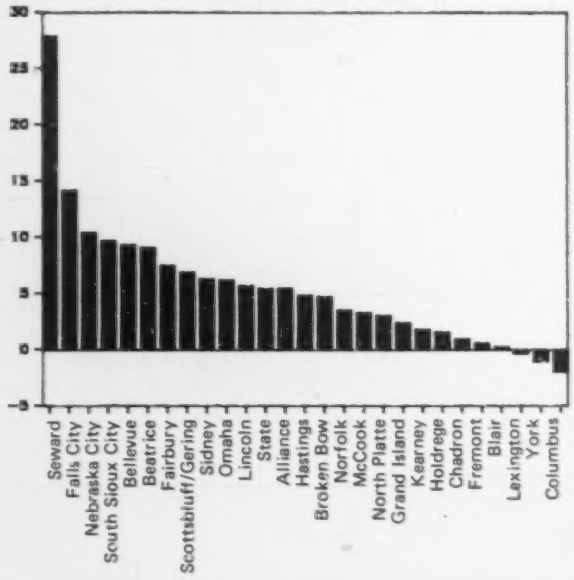
The Bureau prepares and reports economic statistics, the good news and the bad news. The bad news is that the index has plateaued for three consecutive months. I interpret this as an indication there will be very little employment and income growth over the next six to twelve months. Let me underscore, however, that this is a *tentative* conclusion which is being altered constantly with the arrival of additional data and revised data. I am less confident about the next six to nine months than I was in January 1986.

DONALD E. PURSELL

1986 YEAR TO DATE AS PERCENT OF 1985 YEAR TO DATE IN NEBRASKA'S PLANNING AND DEVELOPMENT REGIONS



City Business Index
Percent Change June 1985 to June 1986



June 1986	CITY BUSINESS INDICATORS		
	Percent of Same Month a Year Ago		
The State and Its Trading Centers	Employment[1]	Building Activity[2]	Power Consumption[3]
The State	102.1	100.8	103.4
Alliance	99.4	158.1	102.6
Beatrice	101.6	112.6	107.0
Bellevue	101.4	313.7	85.6*
Blair	101.4	31.6	96.9*
Broken Bow	102.3	146.0	96.3
Chadron	104.1	32.5	93.2
Columbus	102.5	38.1	104.8
Fairbury	102.9	100.1	115.2
Falls City	102.3	451.5	130.7
Fremont	103.5	42.0	68.4*
Grand Island	103.0	84.1	93.3
Hastings	102.4	97.5	160.3
Holdrege	101.7	80.8	92.7
Kearney	103.7	78.9	91.1
Lexington	101.4	68.1	99.1
Lincoln	101.4	92.4	97.1
McCook	103.0	85.8	97.9
Nebraska City	102.0	177.8	108.4
Norfolk	102.8	51.4	141.6
North Platte	101.6	70.1	98.9
Omaha	101.4	105.9	103.3
Scottsbluff/Gering	102.8	203.6	114.0
Seward	102.0	97.5	105.2
Sidney	102.0	334.6	112.4
So. Sioux City	102.6	240.4	101.7
York	101.8	24.0	95.1

[1] As a proxy for city employment, total employment for the county in which a city is located is used.

[2] Building Activity is the value of building permits issued as spread over an appropriate time period of construction. The U.S. Department of Commerce Composite Construction Cost Index is used to adjust construction activity for price changes.

[3] Power Consumption is a combined index of consumption of electricity and natural gas except in cases marked * for which only one is used.

Source: Compilation by Bureau of Business Research from reports of private and public agencies.

Table A
Employment in Nebraska, Omaha MSA, Lincoln MSA, and Nonmetro Nebraska, 1985 and 1986

	NEBRASKA		OMAHA MSA		LINCOLN MSA		NONMETRO NEBRASKA	
Year and Month	Total Employment	Total Unemployment	Total Employment	Total Unemployment	Total Employment	Total Unemployment	Total Employment	Total Unemployment
1985:1	740,807	46,257	289,021	18,089	110,217	4,504	383,865	27,682
1985:2	738,393	48,375	288,770	18,594	110,158	4,531	381,736	28,933
1985:3	751,327	48,028	289,986	18,178	110,877	4,375	392,926	29,045
1985:4	766,682	42,615	292,152	17,191	111,411	3,957	406,125	24,927
1985:5	780,100	42,557	296,312	18,668	113,008	3,977	414,437	23,439
1985:6	786,602	43,570	298,756	18,872	111,176	4,007	420,595	24,177
1985:7	788,444	43,789	299,638	18,698	111,677	4,002	421,282	24,644
1985:8	779,122	40,124	298,606	17,286	111,690	3,655	418,036	22,285
1985:9	772,679	37,937	298,332	16,755	112,817	3,565	410,142	20,580
1985:10	779,835	38,687	300,784	16,744	113,597	3,733	416,285	22,487
1985:11	770,834	47,887	298,460	18,909	114,556	4,629	401,755	27,510
1985:12	761,176	48,174	295,425	19,049	114,139	4,556	394,202	27,912
1986:1	740,452	55,865	290,837	21,518	110,782	4,990	381,167	33,164
1986:2	744,371	56,164	292,087	21,491	111,242	4,995	383,579	33,312
1986:3	761,845	53,488	294,389	20,865	112,062	4,662	398,168	31,712
1986:4	786,047	43,275	297,949	17,616	114,370	4,039	416,923	25,104
1986:5	800,832	38,897	300,209	15,820	115,854	3,527	428,280	22,653
1986:6	802,399	38,122	302,260	16,717	112,702	3,547	431,417	21,127
1986:7	794,877	37,048	298,155	16,619	112,190	3,355	428,160	20,541
1986:8	777,898	31,893	293,156	14,042	110,526	3,095	417,174	17,302

Source: Nebraska Department of Labor

Note: (1) The "distributive" indicator represents a composite of wholesale and retail trade; transportation, communication and utilities; finance, insurance, and real estate; and selected services. (2) The "physical volume" indicator and its components represent the dollar volume indicator and its components adjusted for price changes using appropriate price indexes

ECONOMIC INDICATORS: NEBRASKA AND UNITED STATES

CHANGE FROM PREVIOUS YEAR

June 1986	Current Month as Percent of Same Month Previous Year		1986 to Date as percent of 1985 to Date	
Indicator	Nebraska	U.S.	Nebraska	U.S.
Dollar Volume	na	na	na	na
Agricultural	na	na	na	na
Nonagricultural	105.4	103.8	103.4	104.5
Construction	105.1	106.3	98.2	106.7
Manufacturing	97.8	96.0	95.9	96.7
Distributive	106.3	105.7	104.3	106.6
Government	107.8	106.5	106.8	106.4
Physical Volume	na	na	na	na
Agricultural	na	na	na	na
Nonagricultural	103.1	102.3	100.9	102.5
Construction	101.9	103.1	95.5	103.9
Manufacturing	99.9	98.5	97.6	98.4
Distributive	104.5	103.9	101.9	104.1
Government	103.3	102.1	103.3	102.9

CHANGE FROM 1967

June 1986	Percent of 1967 Average	
Indicator	Nebraska	U.S.
Dollar Volume	na	na
Agricultural	na	na
Nonagricultural	386.6	473.8
Construction	308.8	499.5
Manufacturing	373.9	307.0
Distributive	397.2	562.1
Government	408.5	483.2
Physical Volume	na	na
Agricultural	na	na
Nonagricultural	128.3	153.4
Construction	83.7	135.4
Manufacturing	154.3	123.3
Distributive	121.1	171.4
Government	147.3	155.4

Compiled from data provided by Nebraska Department of Revenue.

NET TAXABLE RETAIL SALES OF NEBRASKA REGIONS AND CITIES

Region Number and City June 1986	City Sales	Sales in Region	
	June 1986 as percent of June 1985	June 1986 as percent of June 1985	1986 to Date as percent of 1985 to Date
The State	108.6	109.1	105.0
1 Omaha	110.3	110.4	108.2
Bellevue	105.9		
Blair	110.2		
2 Lincoln	110.7	111.5	107.0
3 So. Sioux City	108.1	109.6	107.0
4 Nebraska City	113.7	118.1	106.7
6 Fremont	105.6	107.0	107.0
West Point	97.9		
7 Falls City	111.7	114.4	105.0
8 Seward	158.7	122.5	110.7
9 York	109.6	113.2	107.6
10 Columbus	102.1	105.9	104.7
11 Norfolk	111.0	111.1	103.7
Wayne	121.9		
12 Grand Island	103.0	103.7	101.5
13 Hastings	107.3	110.7	104.2
14 Beatrice	116.0	117.0	106.1
Fairbury	112.3		
15 Kearney	101.4	106.6	104.2
16 Lexington	100.4	102.6	97.9
17 Holdrege	102.7	107.1	98.8
18 North Platte	107.7	106.8	103.4
19 Ogallala	101.2	99.9	95.2
20 McCook	104.7	101.6	101.8
21 Sidney	97.5	92.3	92.8
Kimball	82.0		
22 Scottsbluff/Gering	103.4	100.0	100.9
23 Alliance	106.5	102.0	98.1
Chadron	108.8		
24 O'Neill	106.2	108.9	102.2
25 Hartington	99.7	113.3	108.4
26 Broken Bow	103.0	105.3	101.5

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THE EXPORT BASE

Part of the insurance industry generates exports. For example, when a Nebraska insurance company sells and/or services a policy held by non-Nebraskans, the company is exporting a service to other parts of the country for which it receives a fee (just as beef, corn, wheat, center pivots, and Omaha steaks are export products). Exports are important because they expand the economic base. Persons outside Nebraska purchase insurance, beef, wheat, or corn, thereby creating employment and income opportunities for Nebraskans. This export activity generates additional jobs in trade and business services, i.e., firms that serve the insurance industry or the industry's employees. Export products have an entirely different role in the economy than products sold only to Nebraskans.

An expansion of an existing firm or a movement of a new firm promotes economic development not only for those who join the expanding or new firm, but for others who remain in their positions. Consider the following situation in which the firm moves into the community. The new or expanding AB firm hires clerical and data processing personnel. These personnel receive a wage increase of 30.0 percent, for example, because of new duties. Their incomes have expanded and their families are able to spend more time together. Personnel not hired by the new AB firm also benefit, because AB's expansion or entry leaves vacancies that must be filled. If they are filled internally, pay increases and promotions result. The wage structure and the income structure of the entire community are boosted upward.

ECONOMIC DEVELOPMENT FUNCTIONS OF THE STATE

When considering economic development, it is important to keep in mind actions the state can undertake that will promote economic development. The insurance industry, telecommunications, banking and finance, and other industries are affected by policies and regulations--these actions are largely under the control of the governor and the legislature. The state has an obligation to protect the consumer and to create a climate for economic expansion.

It is also important that the state maintains and develops its infrastructure if it is to be competitive and attractive compared to other states. Nebraska's infrastructure includes its roads, waterways, schools, hospitals, and related systems which are essential to the efficient working of the local and regional economy. Maintaining an appropriate and efficient education system is largely the function of state and local officials. Executives are not likely to select or remain in Nebraska if their children must be sent out of state for an education.

SUGGESTIONS?

Readers are invited to submit their comments and suggestions for Nebraska's economic development. In order to publish as many as possible, preference will given to brief and succinct statements. The maximum acceptable length is two double-spaced typewritten pages. All suggestions must be signed and telephone contact numbers provided.

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